

North Dakota REV-E-NEWS



Pam Sharp, Director

March 2009

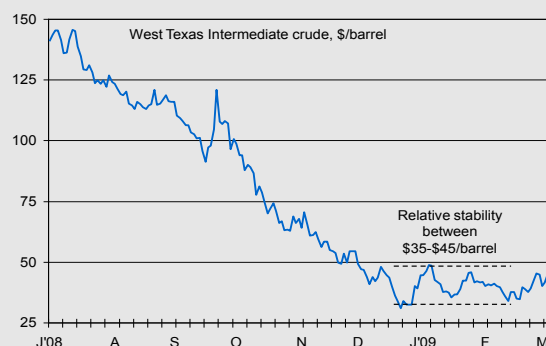
OFFICE OF MANAGEMENT AND BUDGET

600 EAST BOULEVARD AVE — DEPT. 110 BISMARCK, ND 58505-0400

MESSAGE FROM THE DIRECTOR

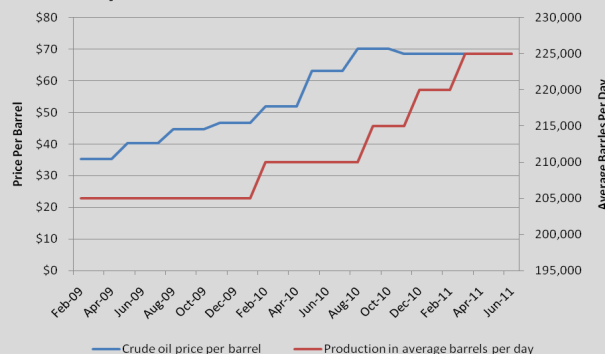
Crude oil prices seem to have stabilized after six months of decline. Prices peaked in July 2008--North Dakota crude reached its record high of \$136.29 per barrel on July 3, 2008. The December 2008 price for North Dakota crude averaged only \$27.11. Moody's Economy.com reports in its March 2009 Précis U.S. Macro publication that "after falling almost 80% peak to trough during the second half of 2008, the price of West Texas Intermediate crude oil stabilized during the first two months of 2009. For most of the year so far, the price of crude has oscillated between \$35 and \$45 per barrel. Concerns regarding lower demand during a protracted global economic downturn have been countered by announcements of production cuts from some of the world's largest producers." The following chart, prepared by Economy.com, shows the precipitous decline in crude oil prices during the last half of 2008, and the relative stability during the first quarter of 2009.

Crude Oil Stabilizes



The current price for North Dakota crude, around \$40 per barrel, is slightly higher than the price projection included in the February 2009 revenue forecast prepared by the Office of Management and Budget. The February forecast, developed in cooperation with the state's economic forecasting consultant, Moody's Economy.com, and North Dakota experts from the oil industry, the state Oil and Gas Division, and the Tax Department, projected first quarter 2009 prices around \$35 per barrel, increasing to around \$40 per barrel for the second quarter of 2009. The forecast assumes prices will continue to rebound, increasing gradually to around \$69 per barrel by the end of the 2009-11 biennium, as shown on the following chart. The legislature has adopted its own forecast, assuming prices approximately 25 percent lower at the end of the 2009-11 biennium than the OMB forecast.

Forecasted Oil Price and Production - OMB February 09 Forecast



OIL ACTIVITY



The February 2009 revenue forecast prepared by OMB is based on oil production averaging 205,000 barrels per day through June 30, 2009, and price increasing to \$40 per barrel by the end of the current fiscal year. Currently, the price of ND crude is around \$41 per barrel. Although production has declined as prices have continued to falter, the sharp decline in January production is primarily related to the harsh winter weather conditions. Record snowfalls made access to rigs difficult in some areas of the state. The current rig count is down to 61 rigs, the same number operating in the state one year ago. Price, production, and drilling activity are summarized on the following table:

	Jan 2009	Dec 2008	Nov 2008
ND sweet crude price per barrel	\$30.56	\$27.11	\$43.85
Production (barrels/day)	186,820	202,200	215,700
Drilling permits	64	101	77
Producing wells	4,151	4,270	4,275
Rig count	73	86	93

Comments or Questions?

Contact

Pam Sharp, Director

Phone: 701-328-2680

Fax : 701-328-3230

E-mail:

psharp@nd.gov

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www.nd.gov

STATEMENT OF GENERAL FUND REVENUES AND FORECASTS Compared to the Legislative Forecast 2007-09 BIENNIUM February 2009

REVENUES AND TRANSFERS	FISCAL MONTH				BIENNIUM TO DATE			
	April 2007 Leg. Forecast	Actual	Variance	Percent	April 2007 Leg. Forecast	Actual	Variance	Percent
Sales Tax	47,298,000	48,979,688	1,681,688	3.6%	767,084,000	885,274,214	118,190,214	15.4%
Motor Vehicle Excise Tax	3,688,000	4,287,963	599,963	16.3%	93,226,000	109,474,582	16,248,582	17.4%
Individual Income Tax	7,955,000	24,785,245	16,830,245	211.6%	388,815,000	521,486,120	132,671,120	34.1%
Corporate Income Tax	2,217,000	3,403,120	1,186,120	53.5%	105,774,000	191,399,432	85,625,432	81.0%
Insurance Premium Tax	2,786,751	4,161,511	1,374,760	49.3%	40,687,561	50,389,029	9,701,468	23.8%
Financial Institutions Tax	204,000	176,164	(27,836)	-13.6%	5,016,000	6,294,532	1,278,532	25.5%
Oil & Gas Production Tax*					39,839,000	39,309,315	(529,685)	-1.3%
Oil Extraction Tax*					31,161,000	31,690,685	529,685	1.7%
Gaming Tax	1,574,272	1,603,372	29,100	1.8%	17,484,879	17,234,039	(250,840)	-1.4%
Lottery					5,577,500	5,300,000	(277,500)	-5.0%
Cigarette & Tobacco Tax	1,823,000	1,736,893	(86,107)	-4.7%	39,993,000	38,359,026	(1,633,974)	-4.1%
Wholesale Liquor Tax	419,000	479,037	60,037	14.3%	10,572,000	11,748,465	1,176,465	11.1%
Coal Conversion Tax	1,321,000	2,561,371	1,240,371	93.9%	39,562,000	40,838,854	1,276,854	3.2%
Mineral Leasing Fees	1,000,000	8,469,917	7,469,917	747.0%	11,650,000	30,388,079	18,738,079	160.8%
Departmental Collections	3,559,000	1,805,279	(1,753,721)	-49.3%	47,973,000	51,424,197	3,451,197	7.2%
Interest Income	1,375,000	2,151,520	776,520	56.5%	28,420,000	36,117,000	7,697,000	27.1%
Bank of North Dakota-Transfer						30,000,000	30,000,000	100.0%
State Mill & Elevator-Transfer								
Oil tax trust fund-Transfer					115,000,000	115,000,000		0.0%
Other Transfers		51,465	51,465	100.0%	4,214,799	4,341,710	126,911	3.0%
Total Revenues and Transfers	75,220,023	104,652,544	29,432,521	39.1%	1,792,049,739	2,216,069,277	424,019,538	23.7%

* Oil and gas production and extraction tax collections totaled \$10.6 million in February. Because the \$71.0 million statutory cap for the 2007-09 biennium has been reached, no additional oil tax collections will be deposited in the general fund during the 2007-09 biennium. Through February, oil tax collections totaling \$409.9 million have been transferred, or are available for transfer, to the permanent oil tax trust fund and are not reflected on this report.

STATEMENT OF GENERAL FUND REVENUES AND FORECASTS Compared to the Previous Biennium Revenues 2007-09 BIENNIUM February 2009

REVENUES AND TRANSFERS	FISCAL MONTH				BIENNIUM TO DATE			
	February 2007	February 2009	Variance	Percent	2005-07	2007-09	Variance	Percent
Sales Tax	32,010,321	48,979,688	16,969,367	53.0%	697,808,822	885,274,214	187,465,392	26.9%
Motor Vehicle Excise Tax	3,993,038	4,287,963	294,925	7.4%	101,583,626	109,474,582	7,890,955	7.8%
Individual Income Tax	14,110,352	24,785,245	10,674,893	75.7%	453,700,926	521,486,120	67,785,194	14.9%
Corporate Income Tax	2,819,109	3,403,120	584,010	20.7%	167,750,904	191,399,432	23,648,528	14.1%
Insurance Premium Tax	2,704,993	4,161,511	1,456,517	53.8%	38,780,561	50,389,029	11,608,469	29.9%
Financial Institutions Tax	235,953	176,164	(59,789)	-25.3%	4,633,897	6,294,532	1,660,635	35.8%
Oil & Gas Production Tax*					45,970,447	39,309,315	(6,661,131)	-14.5%
Oil Extraction Tax*					25,029,553	31,690,685	6,661,131	26.6%
Gaming Tax	1,255,132	1,603,372	348,241	27.7%	15,378,736	17,234,039	1,855,303	12.1%
Lottery					6,300,000	5,300,000	(1,000,000)	-15.9%
Cigarette & Tobacco Tax	1,760,253	1,736,893	(23,360)	-1.3%	37,563,730	38,359,026	795,296	2.1%
Wholesale Liquor Tax	484,162	479,037	(5,125)	-1.1%	10,699,376	11,748,465	1,049,089	9.8%
Coal Conversion Tax	1,615,823	2,561,371	945,548	58.5%	41,254,262	40,838,854	(415,408)	-1.0%
Mineral Leasing Fees	680,369	8,469,917	7,789,548	1144.9%	13,085,113	30,388,079	17,302,965	132.2%
Departmental Collections	3,289,700	1,805,279	(1,484,421)	-45.1%	45,456,925	51,424,197	5,967,272	13.1%
Interest Income	1,890,320	2,151,520	261,200	13.8%	25,015,798	36,117,000	11,101,202	44.4%
Bank of North Dakota-Transfer					30,000,000	30,000,000		0.0%
State Mill & Elevator-Transfer								
Oil Tax Trust Fund-Transfer					55,300,000	115,000,000	59,700,000	108.0%
Other Transfers	45,864	51,465	5,600	12.2%	18,944,772	4,341,710	(14,603,062)	-77.1%
Total Revenues and Transfers	66,895,390	104,652,544	37,757,154	56.4%	1,834,257,448	2,216,069,277	381,811,829	20.8%

* Oil and gas production and extraction tax collections totaled \$10.6 million in February. Because the \$71.0 million statutory cap for the 2007-09 biennium has been reached, no additional oil tax collections will be deposited in the general fund during the 2007-09 biennium. Through February, oil tax collections totaling \$409.9 million have been transferred, or are available for transfer, to the permanent oil tax trust fund and are not reflected on this report.

VARIANCES

February 2009 revenues are \$104.7 million, \$29.4 million more than projected in the original legislative forecast and \$16.5 million more than estimated in the recently completed November 2008 executive revenue forecast. Biennium to date collections exceed the original forecast by \$424.0 million, or 23.7 percent and exceed the November 2008 forecast by \$39.7 million. Notable variances for the month are as follows:

- **Sales tax** collections for the month of February continue to reflect the strength of the North Dakota economy, even in the midst of a worsening national recession. February collections exceed the original legislative forecast by 3.6 percent and exceed the previous biennium collections by \$17.0 million. Through February, collections exceed the original forecast by \$118.2 million, or 15.4 percent. Sales tax collections exceed the previous biennium by \$187.5 million, or 26.9 percent.
- **Motor vehicle excise tax** collections also continue to exceed the forecast. In stark contrast to auto sales nationally, auto sales in North Dakota are increasing. Motor vehicle excise tax collections exceed the original forecast for February by 16.3 percent. Biennium to date collections through February exceed the original forecast by 17.4 percent and exceed the previous biennium by \$7.9 million.
- **Individual income tax** collections continue to outpace the original forecast, as well as the November 2008 executive revenue forecast. February collections exceed the original forecast by \$16.8 million for the month and \$132.7 million for the biennium.
- **Corporate income tax** collections exceed the original forecast by \$1.2 million. Throughout the biennium, corporate tax collections have continually exceeded the original forecast and are currently \$85.6 million, or 81.0 percent, higher than originally estimated.
- **Insurance premium tax** collections exceed the original forecast by \$1.4 million for the month and \$9.7 million for the biennium.
- **Coal conversion tax** collections exceed the forecast by \$1.2 million. A portion of this variance, as well as the slight shortfall in January, relates to the timing of payments made to political subdivisions from the coal conversion tax, pursuant to NDCC Chapter 57-60.
- **Oil and gas tax** collections for the month are \$10.6 million. Because the \$71.0 million general fund cap was reached in November 2007, the entire \$10.6 million will be deposited in the permanent oil tax trust fund. The current price of North Dakota crude is approximately \$41 per barrel with production of 187,000 barrels per day in January.
- **Mineral leasing fees** exceeded the forecast by \$7.5 million for the month, leading to an \$18.7 million variance for the biennium to date. These revenues are received by the state as a result of mineral extraction on federal lands within the boundaries of the state and are shared equally with the counties within which the minerals are produced. Although high oil prices and production have resulted in additional mineral income for the state and counties, the February variance is primarily attributable to the one-time distribution of lease bonuses. Certain lease bonuses that were temporarily withheld were distributed in February upon settlement of an environmental lawsuit.

OFFICE OF MANAGEMENT AND BUDGET
600 EAST BOULEVARD AVE — DEPT. 110
BISMARCK, ND 58505-0400
<http://www.nd.gov/fiscal> or www.nd.gov/omb